

VZCZCXYZ0000  
OO RUEHWEB

DE RUEHTG #0452/01 1351642  
ZNY CCCCC ZZH  
O 141642Z MAY 08  
FM AMEMBASSY TEGUCIGALPA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8101  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY  
RUEHCV/AMEMBASSY CARACAS PRIORITY 0602  
RUEHDG/AMEMBASSY SANTO DOMINGO 0428  
RUCPDO/DEPT OF COMMERCE WASHDC  
RUEAIIA/CIA WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC

C O N F I D E N T I A L TEGUCIGALPA 000452

SIPDIS

FOR EEB/ESC, EEB/OIA, WHA/EPSC AND WHA/CEN  
STATE PASS TO USTR

E.O. 12958: DECL: 05/12/2018  
TAGS: [EPET](#) [EFIN](#) [ENRG](#) [EINV](#) [PGOV](#) [HO](#)  
SUBJECT: GOH THREATENS TO NATIONALIZE ENERGY ASSETS

REF: A. TEGUCIGALPA 336  
1B. TEGUCIGALPA 84  
1C. TEGUCIGALPA 57  
1D. 07 TEGUCIGALPA 1818  
1E. 07 TEGUCIGALPA 1798

Classified By: Ambassador Charles Ford, E.O. 12958 for reasons 1.4(b) and (d)

1. (SBU) Summary: Confronting widespread public discontent with rising fuel and energy prices and embroiled in a constitutional crisis with public prosecutors, the Zelaya Administration in recent days has reactivated threats to nationalize fuel import terminals and is now threatening to take over private power plants as well. Transnational oil companies are being accused of manipulating the market, creating artificial shortages to drive prices up, and have been made to sit through two marathon sessions at the Presidential Palace in the last five days. Embassy sources consider there is more theater than substance to these maneuvers. End Summary.

-----  
When in Doubt, Nationalize  
-----

2. (U) President Zelaya threatened last week to nationalize Honduras's oil import and storage terminals, apparently reactivating proposals that had been under active discussion a year ago but in recent months had gone dormant. Of the three commercial terminals in Honduras, one is owned by Texaco, one is owned by the Honduran firm DIPPSA and one is a joint venture between DIPPSA and Esso. A previous GOH attempt to cite national emergency authority to lay claim to part of the DIPPSA terminal has been tied up in Honduran courts for many months. Zelaya complained about the judicial delays in the press May 13.

3. (U) Zelaya's threat came as more than 40 percent of gas stations in Tegucigalpa and San Pedro Sula reported difficulties obtaining diesel fuel and began rationing distribution or curtailing their operating hours. Industry sources maintained the shortage was temporary, due to problems at a refinery in Curacao. In a press report May 13, one fuel importer said the GOH refused a request to bring in fuel from terminals in Guatemala to compensate. Nonetheless, speculation circulated that fuel importers were deliberately withholding supply to drive up prices.

4. (U) The government-controlled prices for diesel fuel and premium gasoline have risen sharply in recent weeks as GOH subsidies for those fuels became unsustainable from both a fiscal and a balance of payments point of view. An attempt to contain the problem by rationing fuel through a "Don't Drive Today" scheme (cars would post windshield stickers indicating which days they could and could not be driven) was halted in its infancy by the Supreme Court last month after multiple parties challenged its constitutionality. The price of regular gasoline has remained frozen. Zelaya campaigned in 2005 on keeping gas prices under control.

-----  
And Let's Control the Juice, Too  
-----

5. (U) The GOH has also been forced by financial necessity to relent in recent months on subsidies for electricity, about two-thirds of which is generated with heavy fuel oil. Electricity rates have been raised in stages since January, but consumers began to complain seriously about their rising light bills only this month. On the popular morning news talk show "Frente a Frente" May 12, Rixi Moncada, Zelaya's

energy minister and director of the National Electric Company (ENEE), defended the rate increases (which the GOH calls "fuel adjustments"), explained the financial bind ENEE finds itself in and suggested that the only way out may be for ENEE to take over the private power plants from which it obtains about 60 percent of its electricity. ENEE is hundreds of millions of dollars in arrears to those power producers for electricity that has been delivered but not paid for.

16. (SBU) Power plant owners contacted by the Embassy considered Moncada's suggestion to be an empty threat.

-----  
Calling the Energy Companies on the Carpet  
-----

17. (SBU) Zelaya convened an "emergency" meeting at the Presidential Palace May 10 including oil company representatives, taxi drivers, gas station operators and the "Patriotic Coalition" -- an activist group that is hostile to foreign oil companies and has long advocated a state fuel import monopoly. An Embassy contact who participated in the meeting, which lasted seven hours, described it as a "Roman circus." Each interest group present used the forum to push its own agenda. The importers sought a revision to the formula used to set fuel prices, which they claim forces them to sell fuel at a loss (Comment: Embassy is dubious about this claim. End Comment). The Patriotic Coalition blamed the fuel importers for the crisis.

18. (SBU) Saturday's session was followed by a much calmer five-hour session Monday, May 12. President Zelaya did not appear at Monday's meeting. It was chaired by Enrique Flores Lanza, Minister of the Presidency and architect of some of Zelaya's previous ill-fated nationalization schemes, and Lucy Bu, Director of the Petroleum Administration Commission (CAP). Among other things, this second meeting brought up old charges that fuel suppliers deliver fuel to stations at temperatures as high as 90 degrees, well above the statutory standard 60 degrees, and profit from the difference in volume. The GOH said it would name a commission to look into the problem, which importers see as a stalling tactic.

-----  
Comment  
-----

19. (C) President Zelaya told the Ambassador May 13 not to worry about the nationalization threats, as he had no intention of following through with them. However, Zelaya considers taking control of part or all of the DIPPSA terminal to be exercising a GOH right under DIPPSA's contract, not a nationalization. So we may interpret his comment to mean only that he has no designs on Texaco's terminal. Ambassador reiterated that talking about nationalization would only further damage Honduras's already weak investment climate. Industry contacts agree there is little chance that the GOH will follow through with its threats to nationalize either the terminals or the power plants. We surmise that Zelaya is merely responding to public concern about the rising cost of living -- driven largely by surging prices of imported fuel and food but also by loose monetary policies -- and trying to divert attention from issues of corruption, crime and mismanagement that have been dominating the media. He must be seen to be doing something, and following the failure of his "Don't Drive Today" scheme, he is falling back on his old strategy of demonizing foreign oil companies, which is popular with his base.

110. (SBU) According to the local Esso representative, there are no actual fuel shortages. The refinery problem at Curacao caused a transitory supply disruption, and inventory levels are now adequate. However, sensational news reports and the prospect of further price increases incited consumers to hoard fuel, causing a run on the gas stations. An airline source reported that Chevron-Texaco also restricted aviation fuel supply for four days because of a single missed shipment (not known whether this was also related to problems at Curacao), forcing at least one flight out of Tegucgalpa to stop in nearby Belize to refuel. But the source said aviation fuel supply had since returned to normal.

111. (C) The ESSO representative told Econoff that Shell was trying to arrange a meeting between President Zelaya and the Dutch and British Ambassadors to Guatemala (the Netherlands and UK have no resident representation in Honduras) to discuss a revision of the formula used to calculate fuel prices. Ambassador Ford will also be invited to participate. The Dutch DCM in Costa Rica told DCM that Shell was considering pulling out of the Honduran market.  
Ford